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THE ADDRESS

Bush to Return to 'Ownership Society' Theme in Push for Social Security Changes

By DAVID E. ROSENBAUM

WASHINGTON, Jan. 15 - The unifying theme on domestic policy in President Bush's Inaugural Address on Thursday will be the president's vision of an "ownership society" as he tries to galvanize support for fundamental changes he wants in Social Security, tax policy and other areas, administration officials say.

"When people have a stake in something," Treasury Secretary John W. Snow said in an interview on Friday, explaining the president's rationale, "it makes the whole social system work better."

"The president," Mr. Snow added, "wants to pursue policies that encourage ownership."

The boldest example of this approach is the intensifying campaign by the Bush administration to radically alter Social Security, the most popular and expensive government program ever, so that workers can put a portion of their payroll taxes into their own investment accounts.

But the ownership society encompasses other initiatives as well, including those that make temporary tax cuts permanent, minimize taxes on income from investments, revamp workers' health insurance and encourage low-income people to own their homes.

The intent is to change Americans' relationship with the government to allow (or, critics say, to force) people to look less to Washington and to take more responsibility for their finances and their retirement.

Politicians and economists disagree on whether Mr. Bush's proposals would actually accomplish this.

In a speech on Thursday at Catholic University here, Vice President Dick Cheney offered what may turn out to be a preview of this portion of the president's Inaugural Address. He said: "One of the great goals of our administration is to help more Americans find the opportunity to own a home, a small business, a health care plan or a retirement plan. In all of these areas, ownership is a path to greater opportunity, more freedom and more control over your own life, and this is a goal worthy of a great nation. Everyone deserves a chance to live the American dream, to build up savings and wealth and to have a nest egg for retirement that no one can ever take away."

Grover Norquist, an influential conservative tactician, said the ownership society could solidify the Republican Party just as Franklin D. Roosevelt's New Deal and Lyndon B. Johnson's Great Society were the foundation of a Democratic Party majority for generations.

"If this is successful, this will define the Bush administration for the next 100 years," Mr. Norquist said. "People who are more independent and don't feel dependent on the government are more likely to be available to the Republican Party."

Mr. Bush's political opponents say the ownership society is simply one more effort by the president to take government benefits away from the needy and put more money in the pockets of the well-to-do.

"It's an appealing label," said Robert D. Reischauer, an economist who directed the Congressional Budget Office when Democrats controlled Congress and is now president of the Urban Institute, a research center. "But with ownership comes responsibility and risk, and that's the down side. We buy insurance and collectivize pension benefits and health care to reduce the risk."

Robert B. Reich, who was secretary of labor in the Clinton administration, said he worried that "people will, through bad luck or poor decision-making, find themselves in dire straits."

"The whole purpose of social insurance," he continued, "is so you won't find yourself in old age without any assets or find yourself poor and sick and without access to health care."

Others question whether most Americans have the ability or the inclination to make complicated financial decisions involving their retirement and their health care.

In their book "Coming Up Short," Alicia H. Munnell and Annika Sundén, economists at Boston College, examined the record of 401(k) plans, the retirement accounts in which workers control their investments and employers often contribute money. Only 25 percent of eligible workers participate in the plans, they found, and 9 of 10 invest less than the maximum, even when that means they are forgoing contributions from their employers. About 60 percent have dangerously undiversified portfolios, and most cash out their accumulations when they change jobs, rather than saving the money for retirement.

"With 401(k)'s, we've had an experiment in handing over to families the responsibility of saving and planning for retirement, and what we have found is that they make mistakes at each step along the way," Ms. Munnell, an economic policy official in the Clinton administration, said in an interview.

"It's not because they're stupid," she added. "It's because people live very busy, very complicated lives. They're working. They're getting their kids educated. They really do not have time to become financial experts."

Mr. Snow said he thought such views were unnecessarily paternalistic. "I think choice is a good thing," he said.

In a speech this month to the American Economic Association, Martin Feldstein, a Harvard economics professor and Bush supporter, made the economic argument for reducing the influence of the government in people's lives.

"Existing programs," he said, "have substantial undesirable effects on incentives and therefore on economic performance. Unemployment insurance programs raise unemployment. Retirement pensions induce earlier retirement and depress saving. And health insurance programs increase medical costs."

This underscores a fundamental difference between the Republican and Democratic philosophies.

Republicans mostly believe that the role of government is to foster greater individual economic achievement, even if it leads to more economic inequality. The Democratic philosophy is that the government should provide a safety net, even if it leads to economic inefficiency.

In the case of Social Security, Mr. Snow suggested that it would be weeks, if not months, before the details of the proposal were revealed. First, he said, the administration was concentrating on persuading Americans that basic changes were needed in the program.

But when those details are known, experts on Social Security say, they may not include as much private ownership as officials have suggested when they are advocating the principles.

If workers are allowed to invest \$1,000 a year in the private accounts, the most allowed under many plans, the accounts would accumulate only about \$140,000 after a 44-year working life, a nice sum, perhaps, but hardly a fortune.

The types of investments permitted are sure to be strictly limited. Workers will probably not be able to withdraw the money before retirement, even if they are having financial difficulties. And when they retire, they will almost certainly be required to buy a financial instrument called an annuity, which will pay them a few hundred dollars a month for the rest of their lives but which they cannot leave to their heirs.

On taxes, Mr. Bush is likely in his speech on Thursday to call for making the tax code fairer and simpler and for making permanent the tax cuts enacted in his first term, which will expire before the end of the decade. Those measures, which the administration says would contribute to ownership by giving the government less of people's money, are not expected to be acted on this year.

For this year, the president is pressing for two tax-protected savings accounts. One, meant to generate retirement savings, would allow individuals to contribute \$7,500 a year and withdraw the money tax-free after they turn 58. The other would also allow a \$7,500 annual contribution and would permit the money to be withdrawn tax-free for any purpose at any time.

Since few people are able to invest more than \$15,000 a year, these accounts would mean that for most, investment income would go completely untaxed.

In the case of health insurance, the administration is promoting an arrangement called health savings accounts that were authorized by the 2003 Medicare law. Under the arrangement, employers buy health insurance for their workers with a high deductible. Sometimes workers have to pay as much as \$5,000 a year for medical care before the insurance kicks in. But theoretically some of the money the employer had been paying for more expensive health insurance with lower deductibles is placed into the workers' health savings account, and it accumulates tax-free if it is not withdrawn.

The notion is that these plans will lower health costs because workers will assume the responsibility of shopping for alternative or less expensive treatment. Critics say it would lead sick people to forgo needed treatment.

So far, neither employers nor workers have been enthusiastic about participating in the program, and only a few are doing so. It has been impossible to prove whether these accounts lower costs and whether the workers are satisfied with their ownership.

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